Voluntary Separation and Downshifting Incentive Programs for State Employees

GUIDELINES

2003-05 Biennium

Sections 908 and 909 of the state's 2003-05 operating budget give agencies the option to offer employees financial incentives to voluntarily separate from state service, either through retirement or resignation.

As an alternative to separation, agencies may offer employees financial incentives to voluntarily "downshift". Examples include leave-without-pay, work hour reduction, movement to a lower paying position, or temporary separation for development purposes.

GENERAL PARAMETERS:

Purpose	In an effort to meet a specifically articulated legitimate business need, the voluntary separation and downshifting incentive programs aim to reduce salary costs and FTE usage, and to make more effective use of human resources.
Agency Discretion & Prior Approval	Within certain parameters, agencies have discretion to design targeted incentive options that best meet their business needs. Plans must be submitted to the Office of Financial Management for approval **prior** to implementation.
Availability	The incentive program is available through June 30, 2005. Payments and cost recovery must be accomplished by June 30, 2005.
Management Tools	The incentive programs are management tools, not employee rights. No employee shall have a contractual right to a financial incentive offered through this program.
Eligibility	To be minimally eligible for a separation or downshifting incentive, an employee must have permanent status and 3 years of service. In addition, for the retirement financial incentive, an employee must have been eligible to retire for at least 12 months.
Maximum Payment	The *maximum* incentive amount that may be offered is $25,000. The cost of the incentives must be recovered through salary expenditure savings.
Strategic Targeting	Plans must meet a specifically articulated legitimate business purpose. Therefore, agencies must strategically target those who would be offered the incentive options to avoid disruption of government services. Plans should address:

- Retention of adequate levels of skilled, talented workers in needed occupations and locations.
- Retention of positions/occupations/skills that are key to achieving the agency's mission and priorities.
- Reduction of supervisory levels and overhead positions.
- Difficulty or cost of replacing employees with particular skill requirements or in certain locations.
- Potential disruption due to the overall loss of experienced workers.
- Overall cost of the incentives.
- Incentive options shall not be targeted on the basis of individual or personal factors.

Voluntary Acceptance

Accepting the offer is entirely voluntary. Agencies should obtain the employee's signature indicating that the decision to accept the incentive offer is voluntary, and that he/she waives any right to sue the state as a result of participation in the plan

Written Agreement

Agencies will obtain a written agreement signed by the employee indicating they have read, understand and agree to abide by the provisions of these Guidelines.

Unemployment Compensation

Employees accepting a separation incentive are ineligible for unemployment compensation. Agencies should obtain the employee's signature indicating that he/she has been advised of this condition.

Repayment

Following a separation payment, any employee who returns to state service within 5 years (as an employee or contractor) must repay the incentive. An exception to this provision may be granted provided the new agency seeking to hire the former employee has sought and gained approval from the Director of the Office of Financial Management prior to the date of hire. Exceptions granted to this provision may require partial repayment of part of the incentive on a pro-rata basis.

Effect on Retirement System

Separation incentive options cannot propose or require changes to current pension statutes, and cannot increase pension contribution rates.

A separation payment must be a lump sum. It is subject to income tax and social security tax but not considered income for retirement (average final compensation) purposes.

Reporting Requirements

Participating agencies must report by December 1, 2004 on the outcomes (or anticipated outcomes) of their program to the Office of Financial Management. Such report shall at a minimum address:

- The specific business objective the program was intended to achieve, and any success or failure in meeting that outcome.

- The costs of the program, including the financial incentives offered, the savings gained, and the net outcome.
- The number of agency employees eligible to participate.
- The number of agency employees who did participate.
- A detailed accounting of the savings achieved by the program.

Guidelines for Voluntary Separation Incentives begin on page 4 of this document. Guidelines for Downshifting Incentives begin on page 8.

Questions concerning the application of these guidelines within your agency should be directed to your agency designee. Please contact your agency designee or Human Resources staff for assistance.

Voluntary Separation Incentive Program

PROGRAM CONCEPT AND GOALS:

The Voluntary Separation Incentive Program gives agencies the option to offer employees a financial incentive to voluntarily separate from state service either through retirement or resignation.

The program aims to reduce salary costs and FTE usage, as well as to facilitate redeployment, re-organization, and other efforts to make more effective use of human resources.

This *is not* an early retirement program. It is not to be used to target employees on the basis of individual or personal factors.

Each agency has the discretion to design an incentive formula and process that best meets its business needs and objectives, provided that the program is consistent with the basic provisions outlined below.

Incentive plans must be cost neutral or result in cost savings.

Plans must be submitted to OFM for approval prior to implementation.

BASIC PROVISIONS:

- The Voluntary Separation Incentive Program is a management tool, not an employee right. No employee shall have a contractual right to a financial incentive offered through this program.

- Voluntary separation option is available through June 30, 2005. The incentive payment and cost recovery must be accomplished by June 30, 2005.

- Accepting the offer is entirely voluntary.

- Employees who accept a separation incentive option will be ineligible for unemployment compensation. Agencies should obtain the employee's signature indicating that he/she has been advised of this condition.

- To be minimally eligible, an employee must have permanent status and 3 years of service. **In addition, to be eligible for a financial incentive to retire, an employee must have been already eligible for normal retirement for at least 12 months.**

- Employees who return to state service (as an employee or contractor) within 5 years must repay the separation payment unless returning under a full or partial exception granted to the hiring agency by the Director of the Office of Financial Management prior to the date of hire. If the exception is granted, the OFM Director shall have discretion to waive all or part of the separation payment.

- Maximum separation payment allowable is $25,000. The cost of the separation payment, as well as related pension costs if the separation is through retirement, must be recovered through salary expenditure savings.

- Programs cannot propose modifications or require changes to current pension statutes. Programs cannot increase pension contribution rates.

- Separation payment will be a lump sum, which will be subject to income tax and social security tax but will not be considered income for retirement (average final compensation) purposes.

- A separation incentive can be offered subsequent to receipt of a downshifting incentive provided the combination of the incentives does not exceed the $25,000 maximum.

- Agencies must strategically target those who would be offered the incentive options to avoid disruption of government services. The options may be made available to all or any part of the agency. Targeting considerations include:
    - Retention of adequate levels of skilled, talented workers in needed occupations and locations.
    - Retention of positions/occupations/skills that are key to achieving the agency's mission and priorities.
    - Reduction of supervisory levels and overhead positions.
    - Difficulty or cost of replacing employees with particular skill requirements or in certain locations.
    - Potential disruption due to the overall loss of experienced workers.
    - Overall cost of the incentives.

- Incentive options shall not be targeted on the basis of individual or personal factors.

- The earlier in the biennium that an incentive offer is accepted, the more cost savings an agency can potentially realize. Therefore, offering higher levels of incentives earlier in the biennium to motivate earlier separation may be a consideration.

- To avoid disruption, agencies may want to offer the incentives at staggered intervals.

- Agencies should establish internal provisions to ensure the incentives are offered in a fair fashion. Incentives should not be targeted on the basis of individual or personal factors.

- Individuals offered a voluntary retirement incentive will be given sufficient time to make a decision from the date of receiving accurate and complete information about the offer.

- Employees choosing to accept a voluntary separation incentive offer will sign a form indicating that their decision to participate is entirely voluntary and that they fully understand the re-employment and other restrictions.

POSSIBLE FORMULAS FOR VOLUNTARY SEPARATION INCENTIVES:

The following are examples of possible incentive formulas for the Voluntary Separation Incentive Program. Within certain parameters, each agency has the discretion to design whatever formulas best meet its business needs, provided that the plan is consistent with these Guidelines and is approved by OFM.

Example 1: Incentive Based On Years of Service with Age Adjustment

Employee would receive a "separation payment" according to a formula such as the following: *[Note: Modeled after the federal government's program]*

Years of Service	Separation Payment	plus Age Adjustment
Less than 3 years	None	
3-4 years	3 weeks pay	Add 5.0% of annual base pay for each year over the age of 40.
5-9 years	1 month pay	
10-14 years	2 months pay	
15-19 years	3 months pay	
20-24 years	4 months pay	
25 plus years	5 months pay	

Example 2: Incentive Based Solely on Years of Service

Employee would receive a "separation payment" equal to $XX per year of service (YOS). For example, if the incentive was $1,000/YOS, an employee with 20 years would receive $20,000.

Example 3: Health Care Premium Payment as Incentive

The incentive payment would be deposited into an account at the Health Care Authority. The Health Care Authority will credit the monthly premium cost for health care coverage against that account. The monthly premium will be determined by the health care plan selected, the number of individuals covered, and current insurance rates. Any increase in premium rates will be reflected in the monthly charge. The length of coverage would be determined by the cost of the monthly premiums.

Example 4: Split Incentive Payment

Employee could receive a separation of up to $25,000. The employee could elect to split the incentive payment, receiving a portion of the incentive as a cash payment with the remainder deposited into an account at the Health Care Authority. The Health Care Authority would credit the cost of the employee's health care premium against that account. The number of months of coverage would depend upon the amount deposited, and the cost of the health care premiums for the plan selected by the employee.

Example 5: Repayment of Incentive if Employee Returns to State Service

Employee elects a voluntary separation from state service. Within five years of the date of separation, the former employee chooses to return to state service as an employee or a contractor.

The employee will be required to repay the incentive payment. *

> *An exception to this provision may be provided if the hiring agency has sought and gained approval of the Director of the Office of Financial Management prior to the date of hire. The OFM Director shall have the discretion to waive repayment of all or part of the incentive.

These scenarios are provided as examples only. Agencies are encouraged to explore alternate formulas and processes designed to meet their business needs, provided the incentives are consistent with the basic provisions of the guidelines.

Downshifting Incentive Program

PROGRAM CONCEPT AND GOALS:

Agencies may offer employees a financial incentive to voluntarily shift into an employment situation of fewer hours and/or a lesser salary on either a temporary or permanent basis.

The Downshifting Incentive Program is aimed at career employees who would like time to develop new skills for career enhancement or who are ready to move into a less stressful situation. The program gives them the financial incentive and job security to make such a move. At the same time, the program is intended to save salary costs, reduce FTE usage, retain experienced workers, and make more effective use of existing human resources.

Each agency has the discretion to design a Downshifting Incentive Program that best meets its business needs and objectives, provided that the program is consistent with the program goals and basic provisions outlined in these guidelines.

Plans must be approved by OFM prior to implementation.

BASIC PROVISIONS AND REQUIREMENTS:

- The Downshifting Incentive Program is a management tool, not an employee right. No employee shall have a contractual right to a financial incentive offered through this program.
- Downshifting incentive options may be offered through June 30, 2005. Any incentive payment and cost recovery must be made by June 30, 2005.
- The cost of the separation payment must be recuperated through salary expenditure savings.
- Accepting a downshifting incentive offer is completely voluntary.
- To be eligible, an employee must have permanent status and 3 years of service.
- To be eligible for a downshifting incentive, the downshifting agreement must be for a minimum of one year.
- If the employee returns to his/her previous employment situation (or a comparable situation) within time period specified in the downshifting agreement, he/she must repay the incentive payment.
- Agencies must demonstrate that offering the option will not have an adverse impact on the delivery of governmental services to the public.
- Incentive payments that take the form of a lump sum will be subject to income tax and social security tax but will not be considered income for retirement (average final compensation) purposes.
- Only one downshifting incentive can be offered to an employee during the course of the biennium.

- The incentive options may be made available to all or any part of the agency, but must be strategically targeted with the following considerations:
    - Retention of adequate levels of skilled, talented workers in needed occupations and locations.
    - Retention of positions/occupations/skills that are key to achieving the agency's mission and priorities.
    - Reduction of supervisory levels and overhead positions.
    - Difficulty or cost of replacing employees with particular skill requirements.
    - Difficulty or cost of replacing employees in certain geographic or organizational locations.
    - Potential disruption due to the overall loss of experienced workers.
    - Overall cost of the Downshifting Incentive Program.
    - Incentive options shall not be targeted on the basis of individual or personal factors.
- Agencies shall establish internal provisions to ensure the incentives are offered in a fair fashion.
- Examples of options for which a downshifting incentive could be given include (but are not limited to): voluntary move from full-time to part-time; voluntary leave without pay; voluntary downward reallocation or voluntary demotion; and temporary separation for development purposes.

EXAMPLES OF POSSIBLE DOWNSHIFTING OPTIONS:

Example 1: Voluntary Move from Full-time to Part-time

- Employee would receive up to 25% of annual salary in a lump sum for moving from full-time to part-time (no less than 52% time).
- Employee would continue to receive 100% service credits, provided they work a minimum of 90 hours per month, and full insurance benefits.
- Employee must retain part-time status for minimum of 1 year.

Example 2: Voluntary Downward Reallocation or Voluntary Demotion

Provide a lump sum of XX% of the employee's current annual salary as an incentive for a voluntary downward reallocation (position reallocated to a job class of lower pay), or a voluntary demotion (move to a different position in a job class of lower pay).

Example 3: Voluntary Leave Without Pay

- Employee would receive 2 hours pay for each day of LWOP, *provided that* the employee takes a minimum of 4 days of LWOP per month for a minimum of one year.

- Employee would continue to receive 100% service credits, provided they work a minimum of 90 hours per month, and full insurance benefits.
- Employee must re-pay incentive amount (in one lump sum), if he/she opts out of LWOP program within the time period specified in the downshifting agreement.

Example 4: Temporary Leave for Development Purposes (“TLD”)

- Allow extended time away from work site to pursue job-related learning opportunity or to perform a special project.
- Employee must have 5 or more years of service to be eligible.
- Temporary Leave for Development, or TLD, could be taken only once during the authorized biennium.
- Employee would receive no less than 52% of salary during the TLD.
- Employee would receive full benefits and continue to accrue full service credits, provided they work a minimum of 90 hours per month.
- Amount of TLD would be calculated at 2.4 weeks for each year of service, up to 48 weeks. For example:

5 years of service equals 12 weeks (3 months) TLD
10 years of service equals 24 weeks (6 months) TLD
15 years of service equals 36 weeks (9 months) TLD
20 years of service equals 48 weeks (12 months) TLD